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SUBJECT: POVERTY IN PERU DECREASING SUBSTANTIALLY

SUMMARY

1. Poverty in Peru dropped in 2007 to under forty percent, a substantial 5.2 percentage points below the 2006 level of 44.5%, the GOP's National Institute of Statistics (INEI) announced recently. The poverty reduction is consistent with high growth rates of recent years, including 9% GDP growth in 2007. The poor numbered 10.9 million in 2007, 1.3 million less than the prior year. Despite sustained high economic growth, poverty reduction had been slow over previous years after peaking at 54.8% in 2001. Economists said poverty in Peru had been rather inelastic to real growth, due possibly to the large pool of unemployed, the relative isolation of rural areas from markets, and the largely unskilled nature of the labor force. However, observers suggest that continued strong growth and foreign and domestic investment (encouraged by high commodity prices), coupled with the government's focus on social policies and infrastructure, will lead to the kind of dent in poverty that occurred in Chile in the last decade and a half. END SUMMARY.

FINALLY MAKING A DENT

2. Robust GDP growth since 2001, coupled with strengthened social policies, appears to be finally making a dent in poverty in the last two years. The overall poverty rate decreased from 44.5% in 2006 to 39.3% in 2007, and extreme poverty fell from 16.1% to 13.7%. If high private investment levels hold, Peru's economy appears set to maintain some of the best growth figures in the hemisphere. Economists say this will lead to further correlation between economic successes and poverty reduction. Additionally, the government is prioritizing social programs, with a focus on improving education and infrastructure.

URBAN COASTAL AREAS BENEFIT THE MOST

3. As usual in Peru, the areas better able to reap the benefits of steady growth, trade and government social programs were the urban and coastal areas. As the table below shows, both poverty and extreme poverty recorded larger drops in urban than in rural areas. The largest reduction was that of urban extreme poverty, 28.6%. Although still high at 32.9%, rural extreme poverty also fell a considerable 11.3% in 2007.

Peru: Poverty and Extreme Poverty, 2002-2007

	2002	2003	2004	2005	2006	2007
(% of population)	----	----	----	----	----	----
Poverty	54.3	52.0	48.6	48.7	44.5	39.3
- Urban Areas	42.1	40.3	37.1	36.8	31.2	25.7
- Rural Areas	77.1	73.6	69.8	70.9	69.3	64.6
Extreme Poverty	23.9	20.7	17.1	17.4	16.1	13.7

- Urban Areas	9.7	8.9	6.5	6.3	4.9	3.5
- Rural Areas	50.3	42.7	36.8	37.9	37.1	32.9
(% annual change)						
Poverty	-0.9	-4.2	-6.5	0.2	-8.6	-11.7
- Urban Areas	0.2	-4.3	-7.9	-0.8	-15.2	-17.6
- Rural Areas	-1.7	-4.5	-5.2	1.6	-2.3	-6.8
Extreme Poverty	-2.0	-13.4	-17.4	1.8	-7.5	-14.9
- Urban Areas	-2.0	-8.2	-27.0	-3.1	-22.2	-28.6
- Rural Areas	-1.9	-15.1	-13.8	3.0	-2.1	-11.3

-----Source: INEI,
Ministry of Economy & Finance (MEF)

POVERTY REDUCTION BY AREAS/DEPARTMENTS

14. At 23.6%, the Lima Metropolitan Area recorded the biggest poverty reduction in 2007, closely followed by rural coastal areas at 22.2%. The smallest poverty reductions took place at urban and rural highland areas at 9.5% and 4.1%, respectively, as shown by the table below. By Departments, poverty reduction was larger in those that have developed modern farming facilities and non-traditional export factories. Ica (southern coast), Madre de Dios (southern jungle, benefitting from a large road project and high gold prices) and Lima led with 36.7%, 28.3%, and 22.7% poverty reductions, respectively. At the other end, Tumbes (northern coast) and Cusco (southern highlands) recorded poverty increases of 14.7% and 15.0%, respectively.

Peru: Changes in Poverty and Extreme Poverty

Areas/Departments	Poverty Rate (%)			% Change 2007/2006
	2005	2006	2007	

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Poverty by Area:

Lima Metropolitan	32.6	24.2	18.5	-23.6
Rural Coast	50.0	49.0	38.1	-22.2
Urban Jungle	53.9	49.9	40.3	-19.2
Urban Coast	32.2	29.9	25.1	-16.0
Rural Jungle	65.6	62.3	55.3	-11.2
Urban Highlands	44.4	40.2	36.3	-9.5
Rural Highlands	77.3	76.5	73.3	-4.1

Poverty by Department:

Ica	23.9	23.8	15.1	-36.7
Madre de Dios	30.8	21.8	15.6	-28.3
Lima & Callao	32.9	25.1	19.4	-22.7
La Libertad	43.0	46.5	37.3	-19.9
San Martin	54.1	54.3	44.5	-18.0
Loreto	71.5	66.3	54.6	-17.6
Ucayali	53.1	54.0	45.0	-16.7
Piura	58.6	54.0	45.0	-16.6
Junin	56.0	49.9	43.0	-13.9
Huanuco	75.8	74.6	64.9	-13.0
Ayacucho	77.3	78.4	68.3	-13.0
Puno	75.2	76.3	67.2	-11.9
Pasco	72.9	71.2	63.4	-11.0
Arequipa	24.9	26.2	23.8	-9.1
Apurimac	73.5	74.8	69.5	-7.1
Amazonas	68.6	59.1	55.0	-7.0
Moquegua	30.3	27.3	25.8	-5.7
Huancavelica	90.3	88.7	85.7	-3.5
Lambayeque	44.0	41.1	40.6	-1.1
Cajamarca	68.8	63.8	64.5	1.0
Ancash	48.4	42.0	42.6	1.6
Tacna	30.3	19.8	20.4	3.2
Tumbes	16.2	15.8	18.1	14.7
Cusco	55.6	49.9	57.4	15.0

-----Source: INEI
"Technical Report - Poverty Measurement 2004, 2005 and 2006"

DATA CREDIBILITY QUESTIONED... AGAIN

15. INEI's poverty statistics drew plenty of fire, mainly from political quarters. Former President Toledo and former INEI head

Farid Matuk questioned the data's validity, arguing that INEI distorted the results by changing the computation methodology. Interestingly, these same two former officials were themselves the target of abrasive criticism by President Garcia's APRA party in early July 2006, just before the end of the Toledo Administration, when INEI reported a poverty decrease from 54.3% in 2001 to 48.3% in 2006. For example, current Minister of the Interior Luis Alva Castro, an APRA loyalist, had charged that INEI "grossly manipulated" poverty statistics.

16. To preempt criticism leveled at the newly reported poverty drop, the GOP held a press conference and summoned World Bank (WB), Inter-American Development Bank (IDB), and other officials. INEI had asked the WB and others to form an expert committee to review the survey data and computation methodology, in order to obtain the most accurate results possible. A few days after INEI released its 2007 poverty statistics, WB Representative Felipe Jaramillo told the local media that a WB technical team audited INEI's methodology, vouching for the reliability of the results presented by INEI. Jaramillo added that the WB knew of problems with prior INEI surveys, particularly those of 2004 and 2005. (Note: In July 2007, the former WB representative told us that there was a significant error in INEI's 2005 household survey, with a high nationwide 12.3% non-reply rate to key survey questions. 2004 and 2005 figures were revised slightly with WB help. End note.)

MALNUTRITION STILL HIGH

17. Notwithstanding the drop in poverty and extreme poverty, one of the worrying statistics that reflects how parts of the country are being left behind is the persistently high level of malnutrition. Malnutrition rates for children under 5 years old in urban areas have fallen from 26% in 1991-1992 to 10% in 2004-2005. But rates in rural areas are still high, having fallen from 53% in 1991-1992 to 39% in 2004-2005. More and better GOP action in rural areas may be the only way to reduce substantially this troubling indicator.

MORE POVERTY REDUCTION IN COMING YEARS

18. In its recently released medium-term policy and projections, the "2008-2010 Multi-annual Macroeconomic Framework," the MEF projects Peru's real GDP to grow an average of almost 7% annually from 2008 to 2011, a projection in line with those of most local economists. The implied average real per capita GDP growth is of almost 5.7%

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annually, and this bodes well for further poverty reduction. GDP growth in 2008 is on pace to total 10% by the end of the year.

COMMENT

19. It is likely that Peru will keep reducing poverty until the Garcia Administration concludes its term in July 2011, as macroeconomic and trade policies, commodity prices, foreign and domestic private investment, and growth are expected to remain steady. Social policies continue to focus on ways to include hard-to-reach segments of the population, particularly in the highlands. With business confidence high, President Garcia has been able to maintain prudent fiscal policies, with political allies helping to thwart populist proposals. As the 2011 election draws nearer, the Garcia administration needs to improve and increase its social programs, so that their impact on poverty is sufficiently large and rapid to meet rising expectations of important parts of the population who, according to polls, still don't think Peru's economic boom is benefiting them and don't expect to be better off economically in the future.

MCKINLEY